

Auditor-General of South Africa

Nkandla of Municipality - Audit report 2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Nkandla Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Nkandla Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nkandla Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 30 June 2015 in the financial statements of the Nkandla Municipality at, and for the year ended, 30 June 2015

Material electricity losses

8. As disclosed in note 52 to the financial statements, material electricity losses to the amount of R1.2 million (2013-14:R1.5 million) were incurred as a result of illegal connections and ageing infrastructure.

Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for Basic service delivery and infrastructure development presented in the annual performance report of the municipality for the year ended 30 June 2015.
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not identify any material findings on the usefulness and reliability of the reported performance information for: Basic Service Delivery and Infrastructure Development.

Additional matter

17. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matter:

Achievement of planned targets

18. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

20. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

22. Officials whose close family members had business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2) (f).

Human resource management and compensation

23. An acting director was appointed for a period of more than three months without the approval by the MEC in contravention of section 56(1)(c)

Expenditure management

24. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in findings on compliance with legislation included in this report.

Leadership

26. The accounting officer did not exercise adequate oversight over financial reporting and compliance as well as internal control as material misstatements in the annual financial statements were identified and subsequently corrected, which resulted in the municipality receiving an unqualified audit opinion.

Financial and performance management

27. Adequate controls were not in place in ensuring that records are properly safeguarded and monthly reconciliations and reporting were credible and reliable as material misstatements were identified in the annual financial statements, which were subsequently corrected.

Governance

28. The audit committee and internal audit did not adequately review the monitoring processes in providing effective oversight as material misstatements in the financial statements were identified, which were subsequently corrected, resulting in the municipality receiving an unqualified audit opinion.

Auditor-General

Auditor-General

Pietermaritzburg

27 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence